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joint ventures involving cooperatives in food marketing

Marketing Research Report No. 1040

Farmer Cooperative Service
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PREFACE

Joint ventures are one alternative cooperatives have for participating in a fully integrated food marketing system. Ventures can provide services many cooperatives are unable to supply for themselves, and thus they extend producers' control over the marketing of their products.

Because little information has been available on the extent, characteristics, and merits of this activity, this study seeks to (1) identify joint venture arrangements involving cooperatives in food marketing, and (2) determine their structure, operating methods, and problems.

More than 3,000 cooperatives are involved to some extent in marketing food or food products. Some 488 of these had annual sales, or equivalent, of $1 million or more. These formed the group surveyed to get a preliminary view of existing joint marketing arrangements for food or food products involving cooperatives with other cooperatives or with other business organizations. Procedures used in the study are detailed in appendix B.

A close examination of those arrangements identified by responding cooperatives showed 22 to be of joint venture caliber. More detailed data were obtained for further analysis through personal interviews with officers of cooperatives involved in these arrangements.

CONTENTS

Marketing Research Report *1040* *May 1975*

HIGHLIGHTS

Among cooperatives with the equivalent of $1 million or more in annual sales, 22 ventures involving food marketing and related services were identified. These ventures involved 57 participants, of which 28 were cooperatives. Four cooperatives participated in two or more ventures.

Twelve ventures were separate entities and 10 were contractual arrangements. Six separate-entity ventures were organized as cooperatives, and five as ordinary corporations; one was an informal arrangement. Those formally organized were structured to include a board of directors representing the participating members equally or on the basis of investment or use.

Ventures varied greatly as to number of participants, participant mix, age, gross receipts, capital invested, products handled, and services performed. These services included processing and marketing, sales, sales promotion, transportation, and storage, with processing and marketing the most frequently provided.

Separate-entity ventures usually provided these services from facilities operated by the venture. In contractual arrangements, services were provided by one of the participants, usually without requiring the other to make any investment in facilities, and most cooperatives so involved were primarily raw product suppliers.

Circumstances that led to cooperative participation in joint ventures included needs for coordinating or consolidating marketing efforts, needs for raw product supplies, ownership changes affecting the availability of facilities, and deteriorating services. Coordination of marketing efforts and raw product supply requirements were the circumstances most frequently cited.

Cooperatives' motivation for venture participation was explained as a need for better or more dependable services, expanded marketing opportunities, improved returns, or a better bargaining position. Some cooperatives saw in ventures an opportunity to learn something about the processing of their product, or possibly the ultimate merger of the participants.

Participants' inputs, marketing goals, marketing decisions, pricing of product inputs, control of performance, expansion plans, effects on cooperative participants, and other operational characteristics also varied greatly. Participants in separate-entity ventures were much more concerned with these operational considerations than cooperatives involved in contractual arrangements.

Joint ventures need not be considered short-term operations. Many have provided cooperatives with a high level of forward integration and valuable experience in new or specialized fields.

Large, complex ventures must be supported by large participants,

but large participants also became involved in relatively small ventures that supply relatively simple but specialized services. Even the largest cooperatives cannot efficiently fill all their own requirements for such services.

Venture participation provided cooperatives with advantages in three major areas: services, efficiency, and cost and margin control. Disadvantages of venture participation were not of major proportions. More than a quarter of the cooperatives saw no disadvantages, and those that did cited coordination required; lack of flexibility; and profit, price, and cost problems. These disadvantages reflect the obligations of doing business with others and in actual practice are traded off for the advantages afforded by the enterprise.

Venture practices generally show a high degree of conformity to venture criteria. However, separate-entity ventures more nearly met these criteria than did the contractual arrangements.

Joint ventures are not new to cooperatives, either as a business concept or as operating units. In theory and practice, federated marketing cooperatives have represented joint-venture concepts of sharing risks, expenses, profits or losses, and control over the conduct of the business.

Variations in organization and operation of these 22 joint ventures suggest their use in all kinds of business arrangements. Ventures can include the opportunity for cooperatives to work with other businesses and enterprises. Unusual arrangements or relationships between the participants and venture management can also be developed. Although some ventures provided sophisticated services that made significant contributions to a highly integrated marketing system, others performed fundamental, simple services.

In general, separate-entity ventures offer participants a greater opportunity to enter into decisionmaking that ultimately controls the conduct of the operation than do contractual arrangements. This means a better opportunity to control expenses, losses, risks, and profits. On the other hand, contractual arrangements generally offer opportunities for sharing profits and risks without making substantial investment inputs.

Joint ventures are fiduciary relationships embodying complete trust and loyalty between the participants. Good relationships make significant contributions to the success of venture operations.

Joint ventures provide cooperatives an alternative way of securing needed services, especially services they are not able to provide on their own. In view of the recent interest in joint ventures involving cooperatives in food marketing, the 22 arrangements identified in this study appear to be a small number. However, joint-venture formations in the last few years and cooperative interest in possible and potential benefits from ventures, strongly suggest that their numbers may increase substantially in the next few years.

joint ventures involving cooperatives in food marketing

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Joint ventures provide cooperatives one method of further integrating and coordinating their operations and controlling the delivery of materials and services necessary for the production and marketing of members' products. Although some cooperatives have long been involved in joint arrangements of various kinds, these activities have been increasing. Many cooperatives have entered into ventures for the extraction and processing of farm inputs such as petroleum products and fertilizers. Others have used ventures to provide their members with improved processing and marketing services.

Despite this increased activity, little information is available on the extent, characteristics, and merits of joint ventures involving co-operatives in food marketing. This study identifies joint venture arrangements and analyzes their structures, operating methods, problems, and accomplishments.

Many terms have been used to identify joint ventures, and the term "joint venture" has been applied to many different business arrangements. These circumstances reflect a range of interpretations given the term by business, financial, accounting, legal, and other

disciplines. To avoid confusion a definition was developed to provide a basis for identifying and analyzing the joint-venture activity examined in this study.

A DEFINITION

A joint venture is an association of two or more participants (persons, partnerships, corporations, or cooperatives) to carry on a specific economic operation, enterprise, or venture, but with the identities of participants remaining apart from their co-ownership or co-participation in the venture. Participants share on an agreed basis expenses, profits, losses, risks, and some measure of control over the conduct of the arrangement. The form of business organization (partnership, corporation, or cooperative) adopted for the conduct of the arrangement's business will depend on participants' objectives and their willingness to assume risks.

This definition, with special emphasis on the sharing of profits and risks, was used in this study as a guide for determining which arrangements approached joint-venture status. However, not all arrangements judged to be joint ventures had all the features outlined in this definition, or at least not all had them to the same extent. Risk, for instance, was evidenced in quite different forms and to quite different extents in different ventures. A more detailed discussion of joint-venture criteria is presented in appendix A.

Included among arrangements that would satisfy this definition are federated cooperatives that involve as many as 20 or more member associations. Most of these federations have been long established and are well understood operations of no interest to this study. Only those involving small numbers of participants or the more unusual or unique federations were considered here.

VENTURE IDENTIFICATION

When these arrangements were evaluated against the foregoing definition, 22 joint ventures were identified. Fifteen of these provided marketing services to fruit and vegetable cooperatives. The others provided services for sugar, livestock, and poultry associations. (For more detailed information see appendix tables 1 and 2.)

Structure

Of the 22 joint ventures identified, 12 were separate-entity ventures and 10 were contractual arrangements. The distinction between separate-entity and contractual arrangements is primarily

one of structure. If the arrangement provided for a separate operating unit, and in most cases was a separately incorporated unit, it was called a separate-entity venture. If the venture had no separate operating unit, but provided for one or more of the participants to perform functions or services for other participants, it was classified as a contractual agreement.

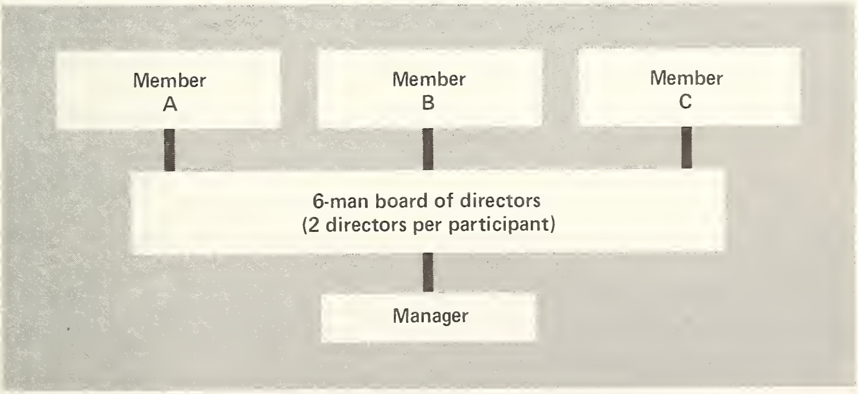
Of the 12 separate-entity ventures, 11 had formal organizational structures. At a minimum, this included a board of directors and a manager. The exception was a loosely-formed or informal arrangement based on a verbal agreement that involved two cooperatives and provided for a joint sales promotion and public relations effort. Six formally organized ventures were cooperatives and five were conventional corporations.

The formally organized ventures all had boards charged with decision making responsibilities. Representation on these boards was either equal—based on participation—or unequal based on use or investment, such as five directors, four representing the major investor and one representing the minor investor.

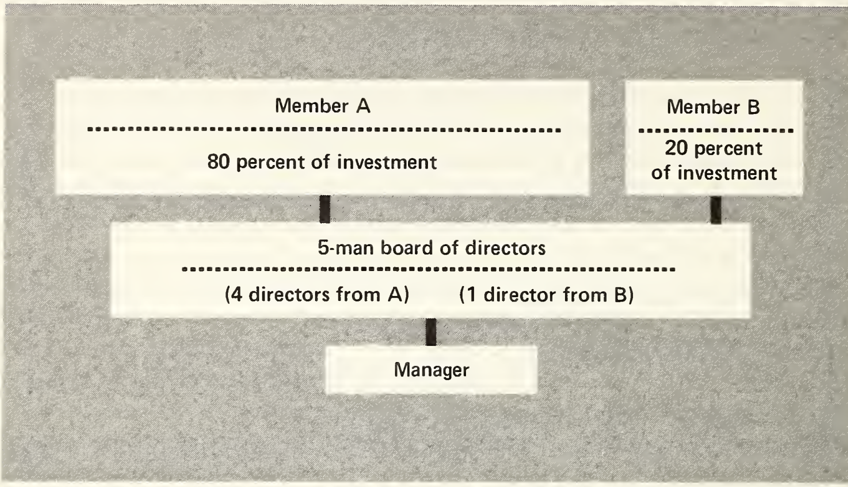
Cooperatively organized ventures provided participants equal representation on the board of directors more often than did corporately organized ventures as follows:

	Basis for board representation		
Venture organization	*Equal*	*Use or investment*	*Total*
		Numbers of ventures	
Cooperative	5	1	6
Corporation	2	3	5
Total	7	4	11

A typical organizational chart for the seven ventures that provided equal representation for participants is as follows:



An organizational chart characteristic of ventures with board representation based on investment is:



If board membership was based on use of the venture, the above chart would be applicable if "investment" were changed to "gross business" or other measure of use.

One venture, Curtice-Burns, Inc. (CB), Rochester, N.Y., had a board whose membership included representation from the venture employees who share in capital stock ownership as well as from the participants. Executive or other special committees are set up by some boards to expedite action or to deal with special programs such as grower relations or commodity problems.

Structural characteristics do not set these separate-entity ventures apart in any way. They simply emphasize that the ordinary corporate or cooperative structure has been adapted to their organizational requirements.

Participants

The 22 ventures, separate-entity and contractual, involved 63 participants; 34 were cooperatives. If allowance is made for those cooperatives involved in more than one of the ventures studied, the total number of participants would be 57, including 28 cooperatives. Three cooperatives were involved in two ventures and one was involved in four ventures.

The number of participants involved by kind of venture is:

Number of participants	Number of ventures: Separate entity	Contractual	Total
2	5	10	15
3	4	–	4
4	1	–	1
5	1	–	1
over 5	1	–	1
Total	12	10	22

These data suggest that separate-entity ventures generally have resource requirements and opportunities that encourage multiple-organization participation. They may also indicate that contractual arrangements are more readily conceived and executed as two-party agreements. This may be particularly so for contractual arrangements that are primarily concerned with the supply of raw products and their processing.

In the ventures studied, cooperatives joined with other cooperatives or with corporate partners as follows:

Participant mix	*Number of ventures:* *Separate entity*	*Contractual*	*Total*
Cooperative-cooperative	7	3	10
Cooperative-corporation	4	7	11
Cooperative-large farmer	1	–	1
Total	12	10	22

The preponderance of cooperative-corporate partners among contractual arrangements, as opposed to separate-entity ventures, is largely influenced by the supply-processing arrangements discussed in a following section on services performed.

Age

The age of the ventures studied ranged from less than 12 months to 26 years. Separate-entity ventures were more likely to be new ventures—eight were less than 3 years old—and contractual arrangements more likely to be older—seven were 4 or more years old.

The oldest venture was 26 years; it was a contractual arrangement involving a large citrus processor, Lykes Pasco Packing Co., Dade City, Fla., and a cooperative, West Coast Growers Cooperative, also of Dade City, that supplies raw product. This arrangement has demonstrated durability in a highly competitive industry.

Services

Services performed by the 22 ventures included the following:

Services performed	*Number of ventures*		
	Separate entity	*Contractual*	*Total*
Processing and marketing	4	7	11
Sales	6	2	8
Sales promotion	1	–	1
Transportation	1	–	1
Storage	–	1	1
Total	12	10	22

Most of these services were performed for the cooperatives involved, but in at least six ventures, the direct beneficiaries of the services were producers. For instance, Four Square Market Inc., Marshall, Mo., provides livestock auction service to producers without regard to their affiliation with either cooperative participant involved in the venture. Similarly, Taterstate Frozen Foods, Washburn, Maine, serves potato growers who sign production contracts and invest in Taterstate by purchasing the required preferred stock for the volume of potatoes contracted. Taterstate regularly buys additional (street) potatoes, some from growers who may not be members of the participating cooperatives or involved in the Taterstate program, but preference is given to contract growers.

Processing and marketing formed the most important category of services provided by these ventures. Separate-entity ventures provided these services from facilities owned and operated by the venture. In the contractual arrangements, the same processing and marketing services were provided by one of the participants, usually without requiring the other to make any investment in facilities.

Most of the cooperatives involved in contractual arrangements were primarily suppliers of raw product. About half of them were Florida-citrus-participation-plan-cooperatives.

Gross Receipts, Capitalization, and Equity

Gross receipts for these ventures show considerable variation. The range in gross receipts for separate entities and contractual arrangements is:

Kind of venture	*Range in gross receipts* *1,000 dollars*
Separate entity	230 - 80,000
Contractual arrangement[1]	200 - 105,000

[1] Range for 9 arrangements — 1 of the 10 contractual arrangements had been in operation for less than a year, but its gross receipts are expected to be within these limits.

These limits are surprisingly similar for the separate-entity and contractual arrangements. The exact reasons for these conditions are elusive and their assessment is beyond the scope of this study. However, they do show the wide range of gross receipts joint-venture activity can generate.

Equity of participants and long-term borrowings form the capitalization of the joint venture. Where the ventures were contractual, with participants agreeing to perform services for one another, arrangements did not involve any capitalization, although large amounts of capital may have been invested by a participant at some prior time to build facilities now involved in providing the services.

In separate-entity ventures, capitalization varied from very small amounts to millions of dollars. In general, where services performed were sales, capitalization was relatively small, and where services involved processing as well as marketing, capitalization was relatively high.

One separate-entity venture had no capitalization; in fact it had no formal organization or contract, and was based on a verbal agreement. The only capital involved was that used to pay current expenses in a sales support program. It was considered a separate entity because services were performed by the venture for the participants. The participants performed no services for one another.

One contractual arrangement provided that a portion of net margins be retained as interest-free operating capital by the coopera-

tive responsible for operations. These retained margins were considered by the other cooperative participant as venture equity.

Equity capital in separate-entity ventures took the form of stock, either common or preferred, capital funds, membership fees, debentures, and retained earnings.

CIRCUMSTANCES AND MOTIVES FOR PARTICIPATION

Circumstances or events that led to cooperative participation in joint ventures were related to a group of economic needs—needs for coordination of marketing efforts and raw product supplies, facilities, and services as follows:

Circumstances leading to participation	*Number of ventures* Separate entity	Contractual	Total
Need for coordination of			
—marketing efforts	7	3	10
—supplies	–	6	6
Ownership changes affecting the availability of facilities	4	1	5
Deteriorating services	1	–	1
Total	12	10	22

Cooperatives' needs for coordinated marketing led to involvement in sales organizations designed to market a complete line of products, to reach a specialized market, or to develop a completely integrated processing and marketing operation. These were mostly separate-entity ventures.

Need for coordinating supplies with processing and marketing led to cooperative involvement in ventures providing for the processing of members' products. These were mostly contractual arrangements.

Ventures involving coordination of marketing efforts and supply and processing functions are an outgrowth of cooperatives' efforts to assure their members one or more of the following: (1) access to markets, (2) efficient marketing methods, (3) a greater share of marketing margins, or (4) an opportunity to exercise market power. Some of these ventures indicate a strong market orientation of participants.

Ownership changes affecting the availability of facilities also influenced cooperative participation in joint ventures. Changes were the result of both outright business failures and proposed sales of facilities. In all cases, the venture was organized to assure continuation of services provided by the affected facility. Despite the urgency suggested by ownership change, no evidence existed that any of these ventures were organized in haste—far from it—some were formed after lengthy study and careful consideration of the venture's role in highly integrated production and marketing operations. However, two ventures were set up primarily to transfer facility ownership with little apparent change from operational methods of prior ownership.

All but one of these ventures were separate entities organized around ownership and operation of a facility. The contractual arrangement in this category was created after acquisition of facilities. It provided for management, processing, and marketing services.

Deteriorating services led to the organization of one venture to provide transportation services. In the sense that this venture worked toward the continuation of services, it is like those that were organized to assure continued use of facilities, but the circumstances leading to its formation were unrelated to facility ownership.

No specific questions on motivation for participation were asked of cooperatives interviewed. However, responses to the question on circumstances leading to participation, and the interviews generally, provided some insight on motivation. Motivation was often expressed in general terms. It included such things as need for better or more dependable service; more effective and efficient marketing methods; ways and means of providing growers better marketing opportunities; and means for sharing risks, improving returns, and improving bargaining positions.

Some motivation for participation was not as directly related to the venture as to the long-range potential for its participants. For instance, it was suggested that participants in one sales venture might in fact be taking the first steps toward ultimate merger of their organizations. In another case, a cooperative manager spoke of participation as a means of learning something about the processing of their product.

VENTURE OPERATION

Venture operations varied greatly in services performed and products handled. They were affected by many factors including participants' resources, needs, and goals.

Participants' Inputs

Participants' inputs include stock, debentures, retained earnings, membership fees, current expenses, raw products, and technical support. Long-term capital inputs were often substantial, and in some separate-entity ventures, these were the only inputs made by the participants except for current expense assessments. Only three separate-entity ventures had any raw-product input from cooperative participants.

In contrast, raw products and technical support are major inputs to contractual arrangements. Cooperatives in eight contractual arrangements had raw-product input; four made current-expense inputs; but only one made any long-term capital inputs. Technical inputs to contractual arrangements were made mostly by the participant operating the processing facility.

In the ventures' formative stages, cooperatives often made significant technical inputs. However, in cases where the time involved became substantial, the participant was reimbursed for providing the services.

Marketing Goals

How marketing goals are established for participants and how they are used and affected by production and supply conditions varied between separate-entity and contractual arrangements. All ventures consider their marketing experience and their market expectations in establishing participants' goals or volume quotas.

Although the basic processes of setting marketing goals may be the same for all ventures, participants involved in contractual arrangements generally viewed this as a function of contract negotiations. Participants in separate-entity ventures were more aware of the relationship between their marketing goals and the ventures' sales projections, perhaps because they were more involved in directing and managing the ventures' operations.

Most contractual arrangements had marketing goals for specific volumes of product or provided for delivery of all product produced on a specified acreage. However, two arrangements were service oriented and made no use of marketing goals.

Among separate-entity ventures, four established marketing goals on the basis of sales projections, but only after consultation with participants. Some of these required delivery of specific volumes. One venture was moving from an acreage to a volume quota basis to better control product flow.

Some separate-entity ventures continue to follow the practice of processing or marketing all the product its members deliver. At least one of these makes preseason adjustments to its marketing program in line with participants' estimates of product availability. Little deviation from these estimates is expected.

Another separate-entity venture operated within the framework of volume limitations set under the National Sugar Program. Three others were providing services and did not use marketing goals.

Product supply conditions had little effect on marketing goals set for participants in contractual arrangements. These were relatively inflexible and thus unaffected by oversupply and undersupply. Failure to meet these requirements was excusable only under extreme conditions, such as crop failure or other natural disaster.

Separate-entity ventures generally took a more flexible approach to participants' marketing goals and used them less than contractual arrangements. One venture handled product in excess of goals but at the participants' risk.

Arrangements using acreage rather than volume as a basis for marketing goals faced processing and marketing adjustments when product yields varied substantially from normal expectations.

Marketing Decisions

In contractual arrangements, decisions are settled in contract negotiations. However, in separate-entity ventures decisionmaking is often a continual process. The source of authority for making decisions concerning the kinds and qualities of products to be marketed and the marketing strategies to be used show something of the basic direction given to operations.

Kinds of Products to be Marketed

Authority for determining the kinds of products to be marketed resided in the boards of directors of seven separate-entity ventures. Management was deeply involved in the process in more than half of these cases—projecting, planning, and consulting with boards or the participants.

Processing-marketing participants had the authority for determining kinds of products to be marketed in almost all contractual arrangements. However, in two of these cases, the supplying

participant was involved with the processing-marketing participant in decisionmaking.

Who makes these decisions may not be as important as having these issues carefully considered. Interviews suggest that the larger, more sophisticated ventures are almost constantly considering additional product possibilities as a routine matter and that these possibilities are being considered by boards of directors with the help of management staff.

Quality of Products to be Marketed

Authority for determining quality of products to be marketed was vested in the boards of four separate-entity ventures. Management had this responsibility in two others, and participants had the responsibility in one. In three other separate-entity ventures, cooperative participants viewed the use of Federal grades and standards as sufficient answer to the problem of quality and no further quality considerations were needed.

In most contractual arrangements, authority for determining product quality rested with the processing-marketing participant. Two supplying participants were also involved in these determinations.

Marketing Strategy

Authority for determining marketing strategies of five separate-entity ventures rested with the board of directors. For another five, management was responsible, but in two cases with board of directors' approval. In two ventures, marketing strategy was not an issue. In almost all contractual arrangements, marketing strategy was the responsibility of the processing-marketing participant.

Pricing Product Inputs

Six ventures—two separate-entity and four contractual arrangements—used some kind of formula to establish the prices of products delivered to the venture. Two other ventures simply used established price quotations, such as the cash market or commodity market operations to determine the prices of the products they marketed.

These price formulas put heavy reliance on prices paid by competing firms or prices of competing products. Some consider industry yields of processed products, costs of processing, and by-product value.

A formula that depends on any set of prices, such as a cash market price, can be reasonable only when such prices adequately reflect

industry marketing practices. Formulas used in the Florida citrus industry recognized the declining role of the spot market for oranges that now represents only a small part of the product processed. One venture's formula uses, among other things, the average price of nonadvertised frozen concentrated orange juice. Another venture's commercial market value formula depends largely on prices paid by other area processors for products with the same end use. It also considers prices paid by processors in other areas when local supplies have been insufficient to establish prices.

Operations of 14 ventures did not require pricing of participants' product inputs. Some operations provided services, such as sales, on a fee basis and did not take title to the products involved. Others involved processing and marketing on a cost basis. Some pooled participants' products and one handled products for area producers, rather than participants.

Distribution of Margins

Margins, if any, were distributed by six separate-entity ventures on the basis of dollar volume or product input. Three made these distributions on the basis of stock ownership and one used a special formula that included incentives for management. Two were operated so that no margins occurred.

Seven contractual arrangements provided for formula or pool payments. In these cases, no margins were subject to distribution. However, two contractual arrangements provided for distributions of margins on a dollar volume or product-input basis, and another provided for a percentage of pre-tax profits to be distributed to the cooperative participant.

Control of Performance

Venture performance is guided and controlled by business methods in common use, including regular board meetings and periodic sales and financial reports. All separate-entity ventures used these methods except one functionally oriented venture that was informally organized.

Special provisions, in addition to the more commonly accepted controls, were used sparingly. These included the occasional use of consultants, a special auditing committee of board members, special commodity and membership meetings with management, and operating reports on weekly or other high-frequency bases—a procedure used by three ventures. In addition, participants in three ventures pointed to the control afforded by almost daily contact with others involved in the arrangement.

Among contractual arrangements, performance controls were built into the contracts. Some provided for very complete monthly reports on operations, or audit privileges to verify processors' costs; one supplying participant had a representative in the processors' plant when hogs were killed and graded. One cooperative participant emphasized the role of personal contact. Another saw control enhanced when specialized experience could be used in comparing sales and other operating results.

Conflicts: Participants vs. Ventures

Conflicts sometimes arise between participants and joint ventures. These may be more annoying than serious, unless they are allowed to go unresolved, and thus to grow, but conflicts often indicate a testing of developing programs, competitive pressures, and managerial problems. Cooperative participants were asked to identify any conflicts in the area of geographic coverage of markets, production, quality control, funding, pricing, participants' marketing practices, or any other matters.

One or more participants in five separate-entity ventures identified areas of conflict. One venture's problems were said to be "just normal conflicts" over the price of inputs and products marketed. A potential but minor conflict over raw-product prices existed between a multiproduct-processing venture and a participant with an otherwise noncompetitive single-product facility. Participants' existing marketing practices limited market coverage for another venture. Overlapping market coverage and funding of improvements to leased facilities were areas of conflict in another case. Last, a conflict existed over operations, including headquarters location; costs; and delegation of responsibility for a new venture experiencing growing pains. Although these conflicts are potential areas of trouble, none were considered serious threats to venture-participant relationships, none were of long standing, and none were expected to continue unresolved.

Cooperative participants in four contractual arrangements indicated areas of conflict, overlapping of markets, allocation of raw product procurement quotas, production and pricing problems, and quality control. Conflicts in one case occurred because the cooperative was not only a supplier of raw product but also a competitor for both supplies and finished-product markets.

The most important areas of conflict for participants in both the separate-entity ventures and contractual arrangements were geographic coverage of markets, pricing, and cooperatives' marketing practices.

Expansion Plans

Venture expansion can occur in two ways: Internally, as participants increase their marketing volume or service needs, and externally, as new participants become involved in the enterprise. Cooperative participants in the ventures studied viewed future expansion as occurring both ways.

Participants in 7 of the 12 separate-entity arrangements viewed their ventures as having expansion possibilities. Expansion in three of these was expected to be generated by internal growth, in three by the addition of new participants, or external growth, and in one both internally and externally. Generally, ventures concerned primarily with sales were expected to expand externally and those with processing or other facilities internally.

Expansion for five separate-entity ventures was not foreseen at the time participants were interviewed. All were involved in new programs or in difficult marketing environments where priorities clearly were not for expansion.

Cooperatives involved in five contractual arangements could foresee possibilities for internal expansion. Expansion would affect only the two contracting participants—no new participants would be included. However, much of this expansion would occur because the cooperative expected to have more members, or present membership expected to produce more and the other participant in the arrangement was willing and able to handle the increased volume.

In the five contractual arrangements where no expansion was expected, participants could not in two cases foresee the market potential for any increases, one participant had entered the processing field in its own behalf, a potential merger blocked further expansion in another case, and the processor in still another case did not need more product.

Although differences between separate-entity and contractual agreements with respect to expansion plans are not very marked, the contractual arrangement appears to offer less flexibility to the cooperative desiring to expand its marketing horizons. This is particularly true for cooperatives that are primarily raw product suppliers.

New Participants

Three-fourths of the separate-entity ventures were open to new participants. All ventures not open to new participants were involved in processing participants' products.

However, "open to new participants" was interpreted as meaning open only to organizations that would meet the criteria for

participation. Those presently involved would have a say, if not a vote, in such matters and their views were that the newcomer must fit.

The venture judged most likely to take on new participants provides transportation services. Any new participants would have to be cooperatives, have complementary product movement, and make a substantial financial investment to assure participation.

One or more of these same criteria was indicated by all other ventures open to new participants. Concern that a prospective participant would contribute to the product mix ranked high, with one cooperative expressing the view that new participants should have branded products and similar markets. This is consistent with marketing objectives for a full line of products to better meet food buyers' needs. Cooperatives also looked favorably on a requirement that new participants meet the same conditions for participation met by those already involved, especially with respect to financial contributions.

No contractual arrangement was open to new participants, and is another indication of their lack of flexibility.

Effect on Cooperatives

Cooperatives have made fewer organizational changes as a result of venture participation than might have been expected. Only five separate-entity ventures and two contractual arrangements indicated change affecting their organizations.

These changes consisted mainly of shifts in personnel from the participating cooperative to the venture, or shifts in staff responsibilities. One cooperative was able to eliminate some duplicate services after the venture was formed. Another, involved in a contractual arrangement with a corporate processor, took on new producer members associated with other processing plants acquired by the processor.

Effect on Producers

Producers' relations have been improved through cooperatives' joint venture participation. Cooperatives associated with seven separate-entity ventures and two contractual arrangements reported improved relations with producers as a result of their venture activity.

Although these cooperatives improved relations with producers this may not necessarily mean all producers. For instance, one cooperative improved its relations with fruit growers but failed to favorably impress vegetable growers with its participation in a

specialized sales venture for processed fruit. Some of these problems might be avoided by showing clearly that the costs of venture operations are borne by the products serviced.

ARRANGEMENTS EVALUATED

Cooperative participants in joint ventures have an opportunity to gain considerable experience, often quite different from that afforded by their own operations. Two cooperatives involved in separate-entity ventures specifically pointed to the experience gained as an advantage of participation. One venture involved potato processing; the other, livestock auction marketing. Both represented specialized operations.

No specific interview questions were asked of the cooperatives relating to their evaluation of experience. However, the general tenor of interviews suggested that in addition to a general satisfaction with services performed and relationships with other participants, venture experience in itself had value. Some cooperatives were actively looking for other venture opportunities. Past venture experiences provided encouragement for seeking further activity and for exacting certain requirements for new relationships. Another group of cooperatives was reported to be considering the possibilities that an ongoing venture experience will eventually end in merger.

Probably not all the cooperatives would agree that their venture experiences were valuable, or that they had gained much except operating losses but even some bad experiences have value. One member of a large cooperative management team, whose venture experiences have been mixed, viewed future successes as depending heavily on experience gained in past and present arrangements.

Although some valuable experience may be gained through contractual arrangements, these do not generally offer opportunities for observing and participating in managerial and policymaking processes.

Venture-Participant Relationships

Although large cooperatives are associated with large, complex ventures that need substantial financial and technical support, they appear to have no hesitancy in becoming involved in relatively small ventures. For instance, three large fruit processing cooperatives (California Canners and Growers, San Francisco, Calif.; Citrus World, Inc., Lake Wales, Fla.; and Knouse Foods, Inc., Peach Glen, Pa.) are engaged in a modest venture that provides only one service—truck transportation. Two other large fresh fruit cooperatives have infor-

mally joined in a small venture to promote sales and conduct customer relations activities. Lack of formal organization has had no apparent ill effects on the functioning of this rather simple operation. Cooperatives involved in both ventures see possibilities for additional participants and an expansion of present services, but not necessarily for any new services.

Ventures offer cooperatives opportunity for obtaining highly specialized services such as these. In many cases, even large organizations cannot economically provide these services for themselves.

Participant Relationships

The importance of participant relationships was identified early. Venture criteria developed as research guidelines included the idea of the fiduciary relationship, but it was not until respondents began to volunteer information concerning relationships of complete trust and loyalty that this idea began to have something more than an academic flavor.

Two cooperatives involved in a contractual arrangement pointed to the importance of a continuing and close-working relationship that had its beginnings years before the contract was initiated. That early relationship included activity in the product area later covered by the contract. Spokesmen for both cooperatives acknowledged the contribution of that relationship to the ongoing arrangement.

An officer in one of the country's largest cooperatives told of his organization's continuing interest in joint-venture opportunities. In looking toward the future, that cooperative as a matter of policy had for some time encouraged staff members to get better acquainted with their counterparts in sister cooperatives. "Some day," declared that officer, "we will get into a joint venture that will be highly successful, and our opportunity will in large part have grown out of the relationships we will have developed with the staffs of other cooperatives."

Participants' relationships were not the subject of interview questions. However, researchers were often able to determine from the general tone of the interview that good relationships were contributing to the health and well-being of the venture, or that strained relations were contributing to the venture's difficulties. These observations confirm the essentiality of a fiduciary relationship to the operation of a successful venture.

Venture Advantages

Cooperatives viewed their ventures' participation as having advantages in five categories: (1) Services, (2) efficiency, (3) cost and

margin control (4) new enterprise opportunity, and (5) sources of product and sales opportunities. Participants in separate-entity ventures cited advantages in all of these categories, but participants in contractual arrangements cited advantages only in the first three areas.

Some cooperatives cited more than one advantage resulting from their venture participation, but these were not given in any order of priority. However, service was an often-mentioned advantage and included providing sophisticated marketing service, providing growers a market for their products, and keeping the producer in business. A critical view might insist that all other venture advantages were evidence of service performed, and thus should be considered in the service category. For instance, cost savings and improved prices are products of service performed.

The cost savings category included such items as advantages of scale; a minimum of cooperative personnel involved; and an opportunity to expand, using limited capital. Cost savings were cited by a substantial number of cooperatives involved in separate-entity ventures, but were clearly less important for cooperatives involved in contractual arrangements.

Cost and margin control was the second advantage most frequently mentioned by cooperatives involved in contractual arrangements. Cooperatives associated in separate-entity ventures put more emphasis on opportunities afforded for exploring a new enterprise, working with other participants, or putting together a full product line.

Putting together a full product line is a major move toward providing sophisticated marketing service. The cooperative members of Sunland Marketing, Inc., Menlo Park, Calif., attach much importance to their venture's capability for providing highly integrated marketing services and a full line of branded products.

One separate-entity venture provided its cooperative participant with a product source for an associated marketing program and an opportunity for farm input sales to producer participants. Supply cooperatives participating in marketing ventures expected some farm input purchases by producers associated with the operation, even though there were no contractual obligations for producers to use the cooperatives' products.

Venture Disadvantages

More than a quarter of the cooperatives interviewed saw no disadvantages in their joint-venture involvement. Disadvantages cited by other cooperatives fell mostly into three categories: (1) coordination required; (2) lack of flexibility; and (3) profit, price, or cost

problems. Coordination required and lack of flexibility were more important to cooperatives involved in separate-entity ventures. Lack of flexibility and profit, price, and cost problems were more important to those involved in contractual arrangements. A fourth, and relatively unimportant, category concerned loss of identity for cooperatives or for cooperatives' brands.

The first category of disadvantages, coordination required, included such problems as having to devote time, attention, and effort to the physical movement of product, attention to establishing the venture's policies, participant's control of the venture, and working at various other venture relationships with and between participants.

Lack of flexibility, the second category, was in a sense another phase of the coordination problem because steps taken to attain coordination, such as establishing marketing goals, tend to impose conditions or limits that affect flexibility. In addition to the common remark that the arrangement lacked flexibility or that participants in some way had less freedom, lack of diversification, limitations on product input, and loss of other business opportunities for participants were all mentioned.

The third category—profits, prices, and cost problems—were noted primarily by cooperatives involved in contractual arrangements. Disadvantages were clearly stated: too little profit, profits must be shared, prices established in a system of pooling could be relatively unfavorable on a dropping market, and cost was too high.

The fourth category included loss of participants' identities, primarily through loss of brand identity where the venture's label replaced the participants' brand.

Although the disadvantages listed here reflect problem areas for cooperative participants, no claim was made that a major problem was about to disrupt the operation of any venture studied. Many disadvantages listed were more in the nature of required business obligations, which were traded off for actual or potential advantages the venture afforded.

Arrangements Measured Against Venture Criteria

Comparison of arrangements studied with venture criteria set out in this report provides a practical measure of performance in such areas as risk-sharing or decisionmaking. (See joint-venture definition in text and discussion of criteria in appendix A).

Individual ventures were rated on a three-point scale indicating that they met, partially met, or did not meet each criterion. From these ratings, the separate entity and contractual arrangements could be easily compared.

Purpose

All ventures studied—both separate entities and contractual arrangements—met the criterion for purpose. All involved agreements to conduct well-defined and basically single-purpose business arrangements.

Participants

All ventures had two or more participants whose separate business identities were retained apart from their co-participation in the venture.

Sharing of Expenses

All separate-entity ventures met the criterion for sharing expenses on an agreed basis. Contractual arrangements on the other hand did not for the most part share expenses. Only two fully met the expense criterion. However, if expense can be construed to include other inputs of value, such as raw product, eight contractual arrangements met the criterion.

Sharing of Profits or Losses

All ventures except one contractual arrangement met the criterion for sharing profits on an agreed basis.

Sharing of Risks

All separate-entity ventures met the criterion for sharing risks on an agreed basis. Seven contractual arrangements fully met, and two partially met, the criterion for risks.

Sharing in Decisionmaking

All separate-entity ventures met the criterion for participating on an agreed basis in the decisionmaking processes that govern or control the conduct of the venture. Four contractual arrangements fully met, and two partially met, this criterion. Other contractual arrangements provided for sharing in decisions only to the extent that contract negotiations involved a sharing in decisionmaking.

Fiduciary Relationship

Again, all of the separate-entity ventures met the criterion for fiduciary relationship. Five contractual arrangements met, and four partially met, this criterion.

In General

On the basis of this analysis, separate-entity ventures more nearly met the potential for sharing expenses, profits or losses, risks, and decisionmaking than did contractual arrangements. One contractual arrangement involving supplying livestock to a processor met only three of the seven criteria, and might on this basis be considered to be something less than a joint venture. It was, however, a joint venture in price determination, but without sharing profits. No other venture failed to meet fewer than five of the seven criteria.

Although the evaluation of the 22 joint ventures identified shows conformance to fundamental criteria and a large measure of agreement in participants' views of these arrangements, wide variations in key features, organizational structure, and operational sophistication are also apparent. These variations suggest all sorts of business opportunities for cooperatives that would use joint ventures as an alternative means of securing needed services and attaining increased market coordination. Joint ventures provide cooperatives a method of increasing producers' participation in our highly integrated food marketing system.

APPENDIX A

JOINT-VENTURE CRITERIA

The joint-venture criteria developed for this study embodies four basic criteria. These were developed after an extensive review of literature and include the following:

1. *An agreement*, either written or oral, for a well-defined and usually single-purpose business arrangement.

2. *A community of interest* in the object of the undertaking, with the business identities of the participants remaining apart from their co-ownership or co-participation in the venture.

3. *Participants' sharing*, on a agreed basis, expenses and other contributions, profits or losses, risks, and control of the venture. It is important that there be a sharing of profits or losses as well as contributions if there is to be a venture. Contributions may be in the form of property, money, efforts, or expertise and it is not necessary that each venturer makes contributions of the same type and magnitude. Risk will develop out of contributions and associations in the venture. Sharing some element of control over the management or conduct of the arrangement is important, but in practice, participants have surrendered their control to others, such as managers, without changing the status of the venture.

4. *A fiduciary relationship* which characterizes the joint venture holds that the participants "owe to one another . . . the duty of the finest loyalty." This loyalty is not a matter of simple honesty, but an honor judged by the most exact, precise, and sensitive standards. A fiduciary relationship is considered by some to be more important than control where authority is shared or delegated to other participants in the venture. The courts have shown little deviation from the view that this undivided loyalty is essential if there is to be a joint venture.

Particular note should be made of the absence in these criteria of any stipulation that a joint venture be formally organized. Likewise, these criteria do not suggest merger, but rather a sharing of participants' interests in a narrowly defined economic undertaking.

No effort is made in these criteria to identify or limit the character of participants or the combinations of participants that can join in a venture. Also, no suggestion is made as to what the basis for sharing

expenses, profits or losses, risks, or control of the venture should be other than to specify that the basis will be agreed upon.

These omissions are noted to show how some popular explanations of joint-venture activity are unsupported by these criteria and in the experience of ventures involved in this study.

APPENDIX B

PROCEDURE

More than 3,000 cooperatives are involved to some extent in marketing food or food products. Of this group, 488 had an annual sales volume of $1 million or more. This business volume formed the basis for mailing out initial questionnaires inquiring if cooperatives were "engaged in any food or food product joint marketing arrangements with other cooperatives or other business organizations?" In the case of grain cooperatives, the basis was 1 million or more bushels of storage capacity. Cotton, livestock, and supply associations involved in food marketing were identified by FCS specialists in these fields. One dairy cooperative was included in the initial survey because it handled a large volume of poultry products, but dairy associations were not otherwise included because the highly technical and specialized nature of the industry was believed to make any joint ventures in dairy deserving of special attention in a separate study.

Some 139 cooperatives reported one or more joint marketing arrangements (appendix table 1). A further examination showed 117 of these cooperatives to have reported multimember federation or sales agency relationships, ordinary contracts, or nonfood or merger situations not of interest to this study.

A final determination on which of these arrangements met joint-venture criteria was not made in some cases until after personal interviews were conducted with cooperative participants. Personal interviews provided basic information on joint-venture structure, operating methods, and problems.

Appendix table 1—Number of cooperatives receiving and returning screening questionnaires, by kind of response and principal commodity marketed, 1972

Principal commodity marketed	Questionnaires				
	Sent	Returned	Reported arrangement		No response or out of business
			Yes	No	
	Number of Cooperatives				
Fruit and vegetable	[1] 208	196	87	103	18
Grain	152	144	22	122	8
Poultry	30	29	7	21	2
Farm supply	30	28	8	20	2
Rice	28	28	6	22	—
Sugar	15	15	1	14	—
Dry bean	9	9	4	5	—
Livestock	9	9	2	7	—
Nut	4	4	1	3	—
Cotton	2	2	—	2	—
Dairy	1	1	1	—	—
Total	488	465	[2] 139	[3] 319	30

[1] Based on information available from another recently used FCS questionnaire, 4 cooperatives were contacted without benefit of a screening questionnaire and 3 of these associations were involved in ongoing arrangements.

[2] Further examination showed 117 of the 139 to involve federations, straight contracts, or activities other than food-related services.

[3] Further contact showed 3 of these cooperatives to be involved in arrangements for food marketing meeting the joint venture criteria.

APPENDIX C – JOINT VENTURES STUDIED

Appendix table 2–Joint ventures studied, their participants, product specialty, and service function, 1972

Name and location	Participants	Product	Service
Separate Entities:			
1. Ag-World, Inc. Lake Wales, Fla.	California Canners and Growers Citrus World, Inc. Knouse Foods Cooperative, Inc.	Processed fruits and vegetables	Transportation
2. Blue Anchor - WOCF Chicago, Ill.	Blue Anchor Wenatchee-Okanagan Cooperative Federation	Fresh fruits	Sales promotion.
3. California Valley Exports San Francisco, Calif.	California Canners and Growers Tri/Valley Growers	Processed fruits and vegetables	Export marketing
4. Curtice-Burns, Inc. Rochester, N.Y.	Agway Inc. Pro-Fac Cooperative, Inc.	Processed fruits and vegetables	Processing and marketing
5. Florida Sugar Exchange, Inc. Belle Glade, Fla.	Sugar Cane Growers Cooperative, Inc. Osceola Farms Co. Gulf and Western Food Products	Raw sugar	Marketing sales

Appendix table 2—Joint ventures studied, their participants, product specialty and service function, 1972 (continued)

Name and location	*Participants*	*Product*	*Service*
6. Four Square Market, Inc. Marshall, Mo.	Interstate Producers Livestock Assn. MFA Livestock Assn.	Slaughter hogs and cattle	Auction marketing
7. Gromark Inc. of Central New York Clyde, N.Y.	Agway Inc. 11 poultry farms	Eggs	Egg production-management and marketing
8. Marshall Farms Cooperative Greenville, S.C.	FCK, Inc. J.D. Jewel, Inc. M and C Farm and Feed Mill. Inc. Tri-County Hatcheries Whitworth's Hatchery and Poultry Farm	Broilers	Processing and marketing
9. Medford Pear Canners Medford, Oreg.	Southern Oregon Sales Associated Fruit Co. Crystal Springs Packing Co. Medford Pear Co., Inc.	Canned pears	Processing and marketing
10. Oregon Pear Sales Co., Inc. Medford, Oreg.	Southern Oregon Sales Crystal Springs Packing Co. Nye-Namus Packing Co.	Fresh pears	Marketing

Appendix table 2—Joint ventures studied, their participants, product specialty and service function, 1972 (continued)

Name and location	Participants	Product	Service
11. Sunland Marketing, Inc.	Sun-Maid Raisin Growers of California Sunsweet Growers, Inc. Valley Fig Growers	Dried fruits	Marketing
12. Taterstate Frozen Foods Washburn, Maine	Agway Inc. Maine Potato Growers	Frozen potato products	Processing and marketing
Contractual Arrangements:			
13. CCF - Gold Kist Atlanta, Ga.	Central Carolina Farmers Exchange, Inc. Gold Kist, Inc.	Broilers	Production, processing, and marketing
14. FOM - Coca-Cola Orlando, Fla.	Florida Orange Marketers, Inc. Coca-Cola Company Foods, Div.	Oranges	Processing and marketing
15. Hi-Quality - Hi-Acres Orlando, Fla.	Hi-Quality Growers, Inc. Hi-Acres Concentrate, Inc.	Oranges	Processing and marketing

16. IPL - Krey St. Louis, Mo.	Interstate Producers Live-stock Assn. Krey Packing Co.	Slaughter hogs	Supply contract
17. Agway - Northeast Fruit Exchange Livingston, N.Y.	Agway Inc. Northeast Fruit Exchange	Apples	Storage
18. TCX - Texsun Edinburg, Tex.	Texas Citrus Exchange Texsun Corporation	Citrus	Processing and marketing
19. Waco - Seneca Williamson, N.Y.	Waco Cooperative, Inc. Seneca Foods Corporation	Apples	Processing and marketing
20. West Coast - Lykes Pasco Dade City, Fla.	West Coast Growers Co-operative Lykes Pasco Packing Company	Citrus	Processing and marketing
21. Willamette - Consolidated Foods Salem, Oreg.	Willamette Cherry Growers, Inc. USP Div. of Consolidated Foods	Cherries	Processing and marketing
22. Equity - Wisconsin Johnson Creek, Richland Center, and Ripon, Wis.	Equity Cooperative Live-stock Sales Assn. Wisconsin Feeder Pig Co-operative	Feeder pigs	Auction marketing

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FARMER COOPERATIVE SERVICE
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